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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY TRIPOLI

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TO : THE DEPARTMENT OF STATE, WASHINGTON.

May 26, 1958
DATE

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	REC'D 6-4	INFO OTHER CIA-12 USIA-10 OSD-4 ARMY-4 NAVY-3 AIR-3

SUBJECT: Availability of U.S. Grant Aid, Fiscal Year 1958, for Support of Libyan Budget

There is enclosed a memorandum of conversation with the Prime Minister of Libya in Benghazi on May 19. This portion of the conversation related to the availability of U.S. Grant Aid for Fiscal Year 1958 in support of the Libyan budget. Also present were the Director of USOM/Libya, Mr. Marcus J. Gordon, and the Permanent Under Secretary of Finance, Mr. 'Abd al-Razzaq Shaglouf.

J. Wesley Jones

1 cy

Enclosure:

As stated.

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REVIEWED BY J.M.Razi DATE May 6, 1982
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R 489

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Enc. No. 1
Desp. No. 128
From AMEMBASSY TRIPOLI

MEMORANDUM OF CONVERSATION

May 20, 1958

SUBJECT: Availability U.S. Grant Aid, FY 58, for Support Libyan Budget: Conversation between Prime Minister Ku'bar and Ambassador Jones, Monday, May 19.

PARTICIPANTS: The Prime Minister; 'Abd al-Majid Ku'bar

The American Ambassador; J. Wesley Jones

Mr. Marcus J. Gordon,
Director, USOM/Libya;

Sayyid 'Abd al-Razzaq Shaglouf (Shaqluf),
Permanent Under Secretary of Finance;

Sayyid Mohammad Salah,
Embassy's Arab Secretary.

PLACE: The Prime Minister's Office, Benghazi, Libya.

After greetings, the Prime Minister opened the conversation by apologizing to the Ambassador for the inconvenience of having to make a trip to Benghazi. He said that he wanted to see him for three reasons. In the first place he had not seen him for a long time; in the second place, he wished to inform him of the results of the London talks; and third, he said that Mr. Shaglouf and Mr. Gordon had some problems which required discussion.

The Ambassador assured the Prime Minister there had been no inconvenience, that he was waiting only for a time when it would be convenient with the Prime Minister and when he could work it into his rather busy schedule in Tripoli. He then congratulated the Prime Minister on the excellent negotiating job he had done in London and the gratifying results of his visit.

The Prime Minister replied with thanks and he said that although he had not done as well as he had hoped, he realized the British have very serious financial problems. He then went on to say that Mr. Lloyd would inform Mr. Dulles in Copenhagen about the results of the London talks. He said for his part, since he considered the U.S. his friend, and since he considered the American Ambassador his friend, and even though no announcement had yet been made, he wished to tell the Ambassador in advance the details of British aid

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to Libya. He said that the U.K. had agreed to provide Libya with £L 3½ million per year for budgetary support, plus small arms and equipment for a 5,000 man Federal army. They would also provide Libya with a small navy. He said there had been discussion of assistance to help Libya with the beginnings of a small air force, but the British representatives had pointed out that there is a large American Air Base in Libya and suggested that the Libyans appeal to the U.S. with a view that we might be able to provide some training facilities, etc. The Prime Minister said that the Libyan Government had preferred to deal separately with the British and Americans rather than conduct tripartite talks. But he said that it was obvious in London that the British were in possession of full information regarding the amount of U.S. aid granted in the past and details of the amount available this year. He said that the British had promised to help persuade the U.S. Government to keep its aid to Libya on a high level. Finally the Prime Minister stated that at the last minute the U.K. representatives decided not to assist with the financing of LPD&SA, but suggested the LPD&SA might be able to include these requirements in the program to be financed with U.S. aid.

Following a report on political issues discussed in London (reported separately), the Prime Minister suggested that they move on to "the problems of Mr. Shaglouf and Mr. Gordon." The Ambassador agreed and again expressed his congratulations to the Prime Minister for his successful negotiations in London. He went on to say that he had thought it would be extremely difficult, if not impossible, to prevail upon the British Government to go above a net figure of £L 2 million per year. The Prime Minister thanked him again, but said that he did not feel that he had been victorious; he had not been able to persuade the British to maintain their previous aid level and the British aid would fall far short of meeting their needs. The Prime Minister then referred to his pre-London conversation with the Ambassador during which Mr. Jones left with him the summary of the total American aid available in FY '58, pointing out that the $3 million worth of commodity assistance plus $2.5 million worth of new or additional aid to Libya, both of which amounts were unprogrammed, could both be made available to the Libyan Government for budgetary support. The Ambassador confirmed that he had stated that these amounts were available to the Libyan Government for either budget support or economic development purposes as may be needed. The Prime Minister then stated that he now understood that there may be complicated procedural requirements; that it had been his understanding that this money would be free for the Libyan Government to use for any purpose which it decided was essential. He said that he had been assured in London by the British representatives that it was their understanding that the $5.5 million from the U.S. would be money which they would be free to use as they saw fit. The Ambassador repeated that the $5.5 million was available either for budgetary support or for development and that he did not believe that the procedural requirements for its expenditure should be regarded as strings and conditions, or should necessarily be objectionable. He said that when he had informed the Prime Minister of the $5.5 million prior to the London talks, they had not discussed the question of how the funds would be available and he had not meant to infer that the funds would be available without regard for the usual requirements and procedures which attach to American foreign aid. He went

on to say that, in fact, in view of the Prime Minister's success in London, he was somewhat surprised that the Libyan Government would still require the full $5.5 million for budgetary support. He pointed out that our concept of budgetary support was support for the ordinary operating and maintenance costs of the Government, not including development projects. The Prime Minister replied that in fact their proposed budget for the present fiscal year shows a deficit of £L 6 million. The U.K. subvention of £L 3¼ million reduces this deficit to £L 2-3/4 million. Hence even with American budgetary assistance of $5.5 million, it would be necessary for the Libyan Government to reduce its budget in order to save about £L 3/4 million.

During the above discussions two other problems were interjected. First, in connection with the commodity program, the Prime Minister said that he was now informed that it would be necessary for the Libyan Government to add customs receipts amounting to £L 300,000. It was explained that we were authorized to agree in advance that these revenues from customs receipts on sugar and POL would be released for budgetary support; thus this would be little more than a bookkeeping transaction and would not actually reduce Libyan revenues. The Ambassador then went into detail concerning the 10% of the $3 million counterpart which would be set aside for U.S. administrative use, explaining the reasons for this and giving assurances that we contemplate that U.S. withdrawals will be minimal. The Prime Minister concluded that since the full $3 million was not assured, it would be better for him, in presenting the budget to the Parliament, to include only the net figure of $2.7 million and that at a later date, when the U.S. has determined its requirements, he could show an increase.

The Prime Minister expressed concern about the complications of these procedures and Shaglouf interjected that he felt it would be impossible for the Libyan Government to comply with them because of their budgetary problems with the Parliament and because of the provisions of various Federal laws with which they must comply. He suggested it would be better for the Libyan Government to use the $4 million of Special Funds plus only $1.5 of other U.S. money for budgetary support. Mr. Gordon pointed out that this would not be possible during the present Libyan fiscal year because there were some firm obligations against the Special Funds.

The LPD&SA question was then raised. Both the Prime Minister and Mr. Shaglouf emphasized that LPD&SA funds had always been part of the Libyan budget and that the LPD&SA requirements were included in their computations of budgetary needs. They preferred to finance LPD&SA out of their regular budget. The Ambassador then expressed the thought that it would be desirable to maintain the separation of the development program and other budgetary requirements. He said the U.S. has previously indicated it is agreeable to providing funds for the completion of existing LPD&SA projects and to make possible the orderly liquidation of the agency. However, he stated that we hoped that we would not be asked to finance new or additional LPD&SA projects with our funds and that our funds would not be required for this purpose beyond the middle of next calendar year. He said that he did not feel that it was logical, or realistic, to have two separate

development agencies both receiving U.S. funds for development projects. The Prime Minister replied that he wanted to have a long, separate discussion with the Ambassador on the whole question of simplifying organizational and procedural arrangements and that this discussion should include LPD&SA, the Joint Services, LARC and the Development Council. He said that they were thinking in terms of one effective development agency, such as the Iraqi Development Board.

The Ambassador then returned to a point previously suggested by Mr. Shaglouf. He said that we might consider substituting a part of the $2.5 million of available U.S. funds for the Special Funds of LARC and that the Special Funds would then become available to the Libyan Government for budgetary support without being subject to ICA procedural requirements. The balance of the $2.5 million, he suggested, could be used to increase a commodity program from $3 million to $3.5 million, or even to $4.0 million. There was some discussion of this possibility and considerable conversation in Arabic between Mr. Shaglouf and the Prime Minister. The Prime Minister again expressed concern and expressed his hope that he could have the $5.5 million for budgetary support without any strings or conditions. The Ambassador expressed sympathy with the Prime Minister's problems with his Parliament, but pointed out that we had equal difficult problems with our "Parliament"; that we need his cooperation in recognizing these problems so that the foreign aid program would continue to receive favorable consideration on the part of our Congress.

The Prime Minister said that he did not understand how an American Senator or Congressman could presume to make judgments as to what is good or bad for Libya, or what is or is not needed in Libya. Such judgments should be left to the people and the agencies in Libya. He said that in London he was informed by the Ambassador of Jordan that in 1957 Jordan had received $50 million worth of aid of which $30 million was for military equipment and $20 million was for budgetary support without any strings or procedures. We expressed amazement and suggested there must have been some procedural requirements of which the Jordanian Ambassador was not aware.

There was some further discussion of the proposal for increasing the commodity program in part and substituting for Special Funds in part. We pointed out the need for identifying from the Libyan budget the items for which American budgetary support funds would be utilized. Shaglouf expressed the feeling that this would be difficult politically, but finally informed the Prime Minister that the matter could be worked out between the Ministry of Finance and USOM.

The Prime Minister appeared satisfied and left the details to be completed at the working level.

MJGordon/met